5 April 2018

# Deliberating Dairy

- Global dairy prices higher on adverse NZ weather, robust demand, and softer USD
- We lift our milk price forecast to $6.55 for 2017/18, following Fonterra's guidance
- We expect global dairy prices to drift lower in 2018, but downside risks have moderated with a higher Euro, higher oil prices, and robust dairy demand
- We lift our 2018/19 milk price forecast to $6.10
- We look at some scenarios for next season, given a wide range of possible outcomes

Dairy prices squeezed higher in early 2018, as NZ milk production was hit by dry and hot weather conditions. Prices rose more than 13% over the first three GDT auctions of the year. Subsequent rain reduced concerns around NZ milk supply seeing prices drift lower over the past two months. Meanwhile, demand has appeared robust and global prices have also been supported by a general softening in the US dollar. By early April, dairy prices sit around 4% higher than a year ago.

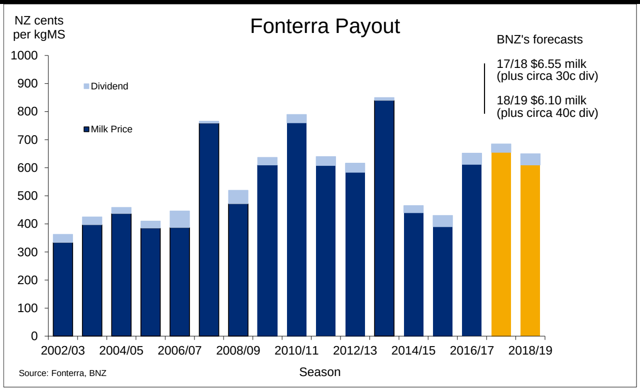
Fonterra recently lifted its 2017/18 milk price forecast to $6.55 per kilogram of milksolids (from $6.40 previously). Given recent international prices, this suggests Fonterra has managed to hedge the NZ dollar at a somewhat lower level than we had previously assumed. At this latter stage of the season we defer to Fonterra's guidance and move our own milk price forecast to $6.55 (from $6.30). With the majority of product sold for the season, any milk price changes from here, if any, are likely to be relatively small, but we will continue to monitor the regular auctions for any signs of pressure on this view – one way or the other.

Negatives from Fonterra's recent results announcement came in the form of a $405m writedown of its Beingmate investment and the previously announced $183m damages payment to Danone. Reflecting these influences, Fonterra's first half loss was $348m, while normalised profit after tax was $248m.

Dividend guidance was given as a range of 25c to 35c – the midpoint of 30c is 10c lower that last season's 40c dividend. This was broadly in line with expectations, although guidance has been given as a range this year. Fonterra will decide how to treat the writedown and damages payment for dividend purposes once full financial details are known at the end of the financial year.

Pulling this together, overall payments to Fonterra shareholding farmers for the 2017/18 season look healthy-to-strong. A forecast $6.55 milk price plus a dividend of between 25c to 35c sees a total of between $6.80 and $6.90. This is above last season's $6.52 and the previous five year average of $6.03. It is certainly miles above the extreme low of $4.30 in the season before last. Moreover, payments to farmers are set to be firmly above estimated average breakeven that sits around the mid-$5s.

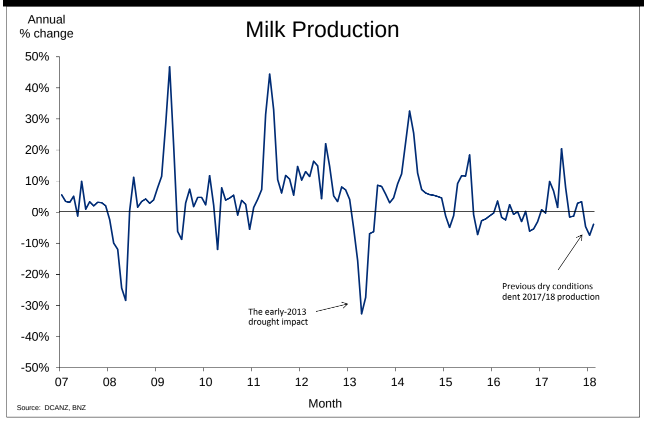
Positive




But the push higher on the milk price side of things needs to be set against generally lower NZ milk production this season. We remain of the view that NZ milk production for the 2017/18 season as a whole will be down around 2% compared to the previous season. This suggests milk revenue to dairy farmers this season will be marginally higher on average compared to the previous season.

The circa 2% volume decline expected for the season includes January's NZ milk volume coming in 7.4% down on a year ago, as the worse of the dry conditions took effect. Rains helped lessen the dent in February, with production down by a lesser 3.9% compared to last year. We think March milk supply will be well behind last year's strong result. All this will likely see agriculture GDP subdued in the first quarter of the year, following the hit it took in the final quarter of last year.

Negative



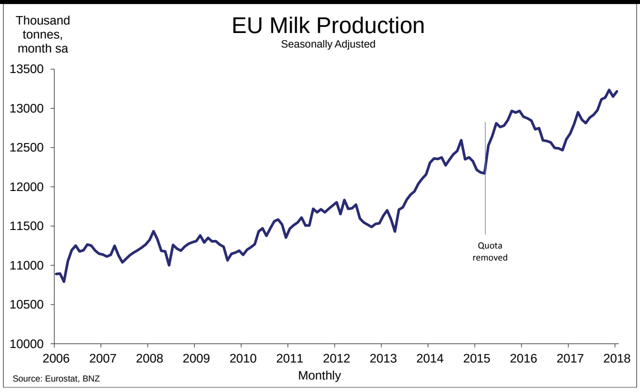



National Australia Bank

Focus is quickly turning to next season. As always, there are many moving parts making error bounds around any point forecast very wide at this point of proceedings. It is still very early days with the new season still many weeks away from starting.

We are of the view that international dairy prices will drift a bit lower over the coming year as world milk supply expands at a solid pace, driven by more milk out of the EU (despite declining cow numbers). It also reflects very large EU intervention stockpiles of SMP (in excess of 370,000 tonnes) that still overhang the market, albeit with an ageing profile. In addition, operational changes to EU intervention this season (tendering rather than minimum price buying) could see further downward pressure on SMP prices from already very low levels. It is all eyes on Europe, although stocks are also at elevated levels in the US. Dairy prices also still look a little stretched relative to international grain prices.

## More Milk Here

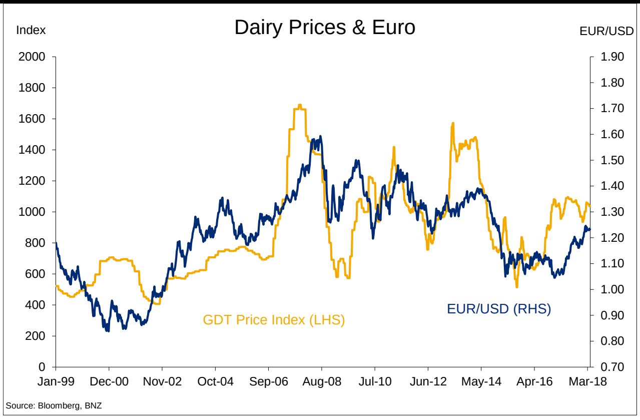



Meanwhile, NZ milk production is expected to recover next season from this season's weather hit. *Mycoplasma Bovis* disease is causing considerable angst across the dairy (and beef) sectors; however current MPI cow cull plans (approximately 22,300) do not equate to a material reduction in national milk production. We have pencilled in a gain of around 2% next season (but as we all know this will heavily depend on the weather).

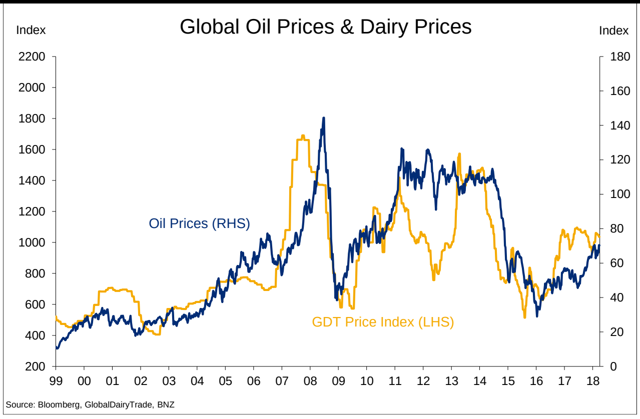
But recent developments, in addition to the recent weather dent to NZ production, have tempered the degree of decline that we anticipate. These developments include:

- A bout of cold weather in Europe that seems to have checked milk expansion, at least temporarily.
- A stronger Euro. This makes EU dairy products less competitive on world markets lessening potential downside to world prices. The Euro is now around 15% higher than a year ago against the US dollar (and more than 10% higher against the NZ dollar).
- Robust demand.
- Oil prices pushing up to the top of recent ranges near $US70/bbl. This can support dairy prices through the usual channels such as derived demand from oil producing countries and cost push pressure on the supply side.

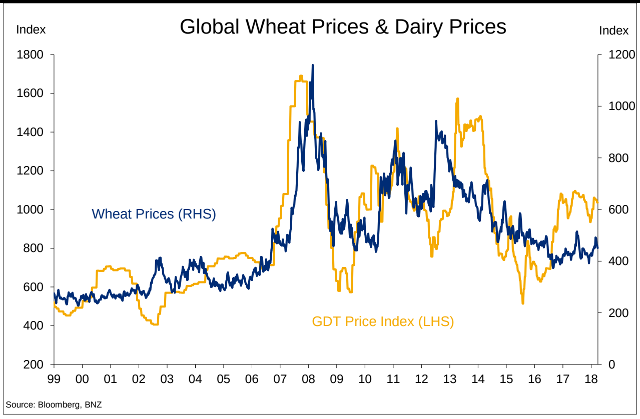
## Less Downside Risk Here




## And Here




## But Still Some Here



Some of these factors can be sheeted back to a generally falling US dollar that, by itself, also has a direct upward influence on prices for products (like dairy) that are typically priced in that currency. Looking ahead, we expect the US dollar to generally remain under downward pressure.

All considered we lift our 2018/19 milk price forecasts up to $6.10 (from the $5.70 we had pressed it down to in October last year).

Of course, our $6.10 figure sits within a very wide range of outcomes that are possible when the 2018/19 season's milk price is finalised in around 18 months' time. Risks to any milk price forecast are large and ever present. It is entirely possible for prices to end up higher than our forecast, just as much as it is for prices to be lower. At this point, we would highlight that a higher than forecast milk price is likely if international prices do not drift lower as we anticipate.

Our 2018/19 milk price forecast is underpinned by our expectation that wholemilk powder (WMP) prices will range between US$2,900/T and US$3,300/T over the next year or so (amid a host of other assumptions regards other international product prices, product mix, operating costs, and foreign exchange rates – the latter includes our forecast of a slightly lower NZD/USD and an assumption that this translates to an average conversion rate in the low-70s). NZD/USD has averaged just over 0.71 over the past 18 months.

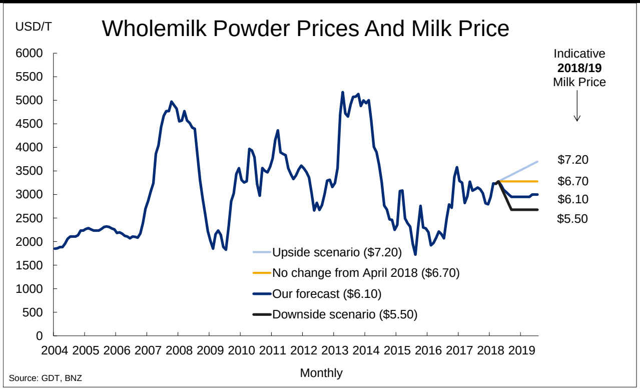
There is possible upside for milk price if, for example, the positive influences listed above were to intensify. On the other side, one might wonder why dairy prices have not pushed higher than they have over recent times given recent supportive factors including lower NZ milk production. This plays to the idea that prices may ease ahead if some of these previous positive influences were to wane.

Demand may fit this category. It has seemed robust, supported by positive economic growth across major economic regions. But there are signs that global growth is peaking. We expect global growth to be generally solid over the coming year, but are aware of downside risks lurking in the form of recent equity market wobbles, rising global interest rates (led by the US), and increasing trade tensions/negotiations between the US and China (among others).

There are any number of possible influences that could shunt next season's milk price any which way. As such, it is worth looking at some scenarios for WMP and what these might mean for the milk price ahead.

In addition to our forecast, we look at three alternatives: no change in the WMP price from here, a downside scenario and an upside one. The chart shows these WMP price scenarios and the associated indicative 2018/19 milk price.

**Which Way Next?**




## No Change From Here Scenario

This scenario assumes prices remain steady from the early-April auction level for the entire 2018/19 season (as if world prices would ever sit still for a year!). As well as a useful benchmark, relatively stable prices over the past year make this scenario worth considering. Given the other uncertainties including the exchange rate, we estimate this would give a 2018/19 milk price in a range of $6.50 to $6.90.

## Downside Scenario

This scenario assumes WMP prices fall back toward recent range lows, at around US$2,700/T and remain there to season's end. Such a scenario may involve a blend of even more EU milk production with softer EU dairy product pricing with a lack of EC Commission buying, a turn lower in the EUR, strong growth in milk supply in the US that spills into the world market, slower global economic growth perhaps stemming from policy-induced trade disruption, an economic stumble in China denting dairy demand, a retreat in oil prices, and/or even weaker international grain pricing. The NZD would be expected to decline under such rather severe conditions. But even so and given the other uncertainties, such an international environment would indicate a 2018/19 milk price in a range of $5.30 to $5.70.

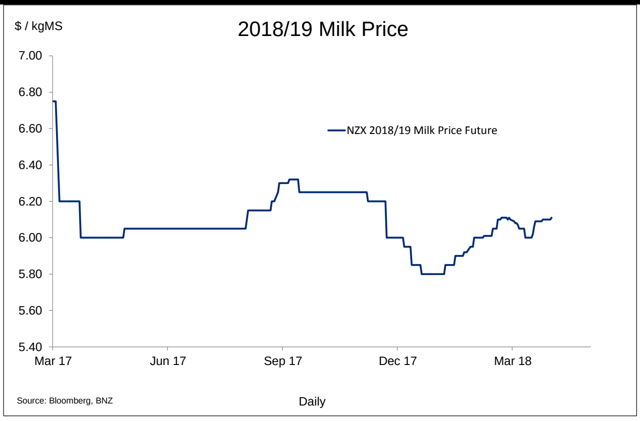
## Upside Scenario

This upside scenario assumes WMP prices track firmly upwards from here to around US$3,700/T by the end of the season so above a recent high set in 2016. Such a scenario may involve some combination of pullback in EU and US milk supply, ramping up of Chinese demand, a further lift in international oil prices, a weather event in a major milk producing area (can never be ruled out) and/or gains in international grain prices. The NZD would be expected to be firm under such conditions, but even so, and given the other uncertainties, we estimate this would give a 2018/19 milk price in a range of $7.00 to $7.40.

### Market Pricing

In addition to the above scenarios, it is useful to look at what market pricing implies. Most directly, NZX milk price future for 2018/19 currently sits just over $6.10. Of course, such pricing can change quickly as dairy demand and supply conditions evolve.

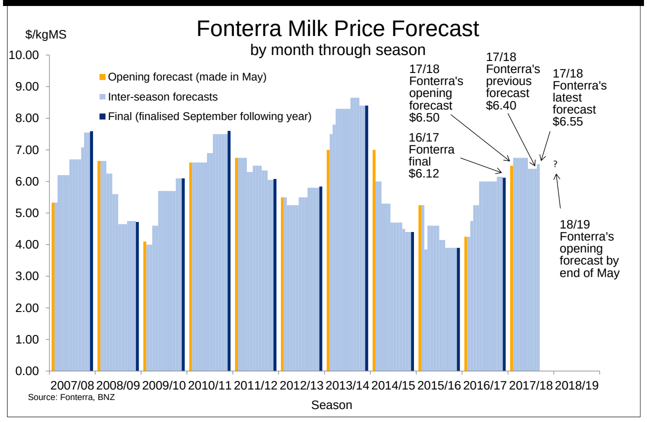
**NZX Future Pricing**




### Fonterra

As usual, Fonterra is due to make its first milk price forecast for the coming season before the end of May. We will see where the co-op's forecast sits alongside our scenarios and current market pricing discussed above, as it takes account of all the information available at that time. More than a month is a long time in primary product markets.

**Fonterra Forecast Due By End of May**




### RBNZ

RBNZ commentary seems to fit within these scenarios. The RBNZ saw WMP prices staying around US$3,000/T in its February Monetary Policy Statement. Our calculations using that view suggest it would be consistent with a 2018/19 milk price of around $6.20, depending on a host of other assumptions including the outlook for the currency even if it is based off the Bank's broad currency projections. Current market conditions (WMP prices close to $US3,300/T) are a bit firmer than the Bank anticipated.

### Overall

Some of the scenarios discussed might seem unlikely given the relatively limited degree of price movement over the past season. Indeed, the 35c range ($6.40 to $6.75) of Fonterra's milk price forecasts to date for the 2017-18 season is the lowest forecast range through a season in the past 10 years.

But never say never in primary product markets. After all, dairy price cycles in the not-to-distant-past have seen WMP prices both double or half within little more than a 12 month period. It would be foolish to think that volatility could not return. But, as we noted more than a year ago now, it is important to recognise that global supply seems more able to respond if and when price pressure occurs helping reduce price variation. This is not to say that commodity price cycles are dead (will they ever be?), but rather that there is a chance the amplitude of future cycles may be dampened somewhat compared to the past.

The farmgate milk price is very difficult to forecast. This stems from the nature of the international dairy market including the inherent biological and system supply lag times to respond to price changes, a diverse set of demand drivers across the globe, relatively little product traded across borders but big domestic milk markets around the world, weather risks, and political and trade access risk all of which is then overlaid with the vagaries of currency markets.

The scenarios we have outlined are not intended to scaremonger nor elevate expectations. They are simply designed to illustrate the degree of uncertainty around as well as potential milk price outcomes given various international conditions. From a business risk and planning point of view, it bears thinking about. Forecasts can and do change – often by quite a lot through the season. Ultimately, while forecasts and scenarios can be useful what matters most is what prices actually turn out to be.

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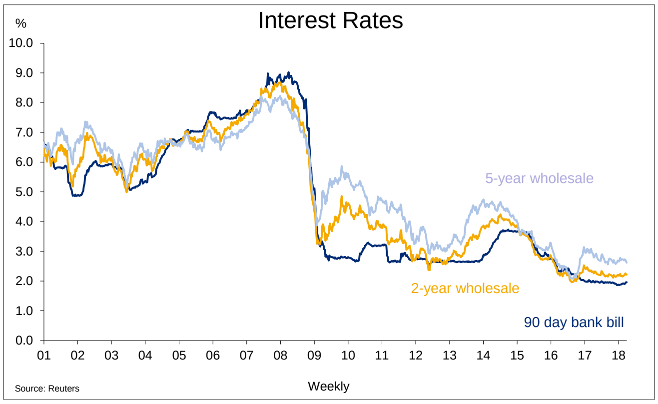
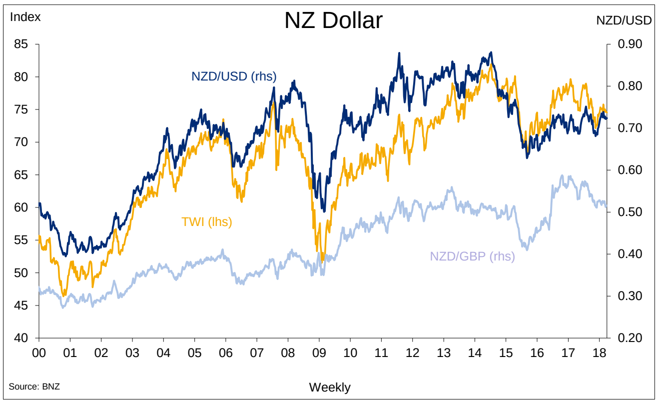
# Key Macro Drivers for Commodity Producers

## Interest Rates



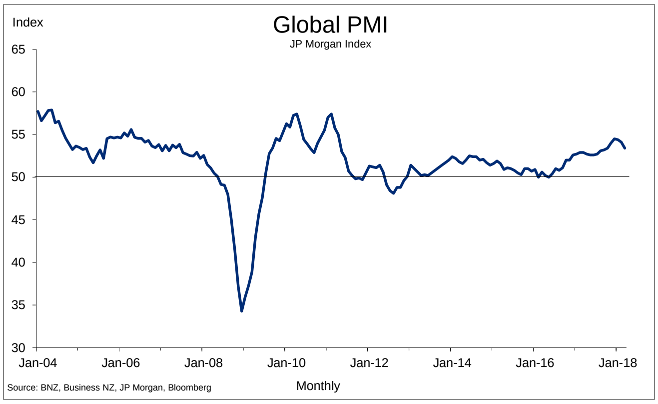

At its late March announcement, the Reserve Bank kept the OCR on hold at 1.75%, as universally expected. We expect the OCR to be on hold through 2018. This will act as an anchor for floating and short-term fixed interest rates through much of this year, although these can still move depending on funding pressures. Only late in the year, do we anticipate the likes of 2-3 year fixed rates starting to drift higher in anticipated of potential OCR increases in 2019. We have not changed our interest rate view following the appointment of Adrian Orr as RBNZ Governor, the signing of a new Policy Targets Agreement (including an employment objective alongside inflation), and the recommendation of moving to a committee decision making structure. For longer term rates, we expect higher US rates this year to push longer-term NZ fixed rates higher.

## Foreign Exchange




Volatility in currency markets remains low, despite a marked lift in volatility in other markets like equities. We remain of the view that the NZD will drift lower over the year. Against the USD this is expected to reflect somewhat lower risk appetite, not helped by current US-China trade tensions, and the US Fed still clearly on a path toward higher interest rates while the RBNZ stays put. The risk to this view is a generally weaker USD, as the market contemplates the influence of twin fiscal and external US deficits. Meanwhile, the EUR, GBP and CNY are expected to strengthen against the USD. A Brexit transition deal helps pave the way for further interest rate increases from the Bank of England and we expect further subtle shifts in ECB policy through the year that should add support to EUR.

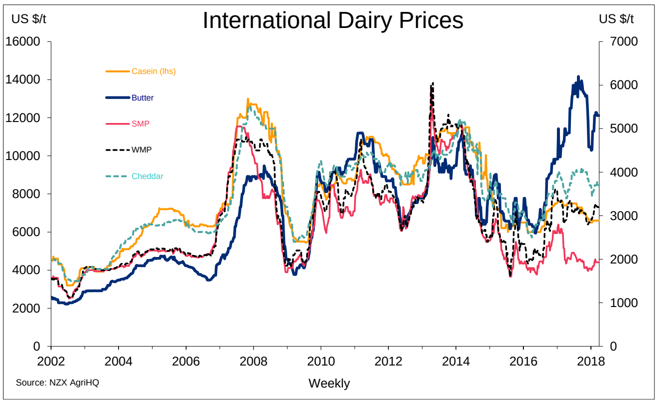
## Global Growth




The global economic environment remains positive, with solid growth occurring across the globe. This has proved a fertile ground for primary product price strength. That said, there are some near term trends that are somewhat less encouraging with some leading indicators (like the PMI) suggesting the rate of expansion has peaked. Recent equity market volatility also counsels some caution as does heightened trade tension between the US and China. Assuming these risks do not escalate materially, we expect above trend global economic growth to continue into next year albeit slowing as some major central banks cautiously remove monetary stimulus. So still a favourable world economic environment ahead, but perhaps not quite as good as it has been in recent times.

# Key Commodities

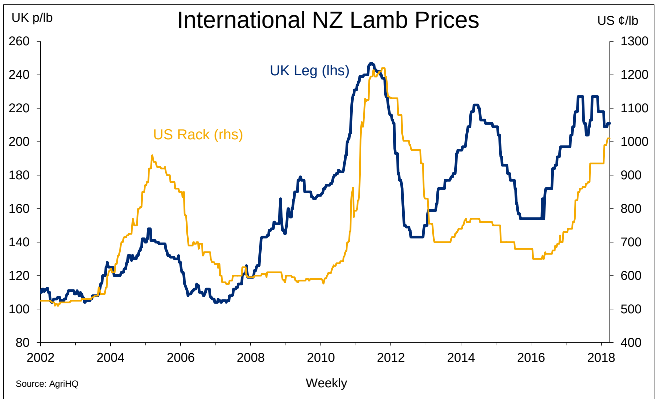
## Dairy




The GDT Price Index has recently drifted lower, after rising by nearly 13% early in 2018. Prices are around 10% higher than at year start. Meanwhile, the NZD/USD exchange rate has oscillated in the low 70s. Fonterra has lifted its 2017/18 milk price forecast to $6.55, and so have we. We anticipate dairy product prices to drift lower over 2018 as world milk supply expands at a solid pace, driven by more milk out of the EU, very large SMP EU intervention stocks overhanging the market, and changes to the EU invention scheme adding to downward price pressure. However, demand looks solid and a stronger Euro and higher oil prices are supportive. If global dairy prices don't drift lower, our 2018/19 milk price forecast of $6.10 will probably prove too low.

| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| Whole milk powder (US $/t) | 3190 | 3225 | 2890 | ↓ |

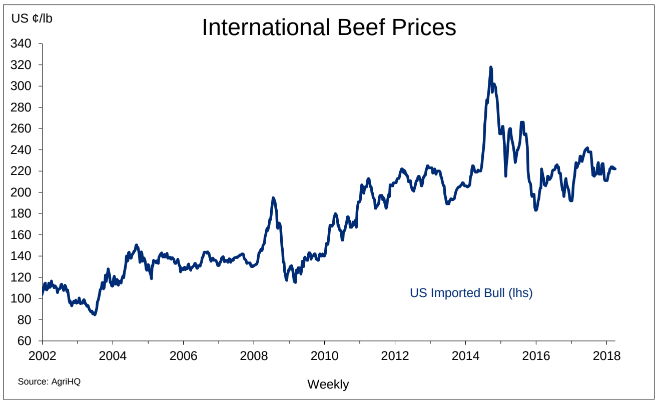
## Lamb




Lamb markets are in fine fettle. Sure, tight NZ supply has been a driver of the unseasonal domestic price lift during February and March. But the general price strength has been firmly supported by solid demand. Robust European economic growth, moderate oil prices, and increasing interest for China have all been positive factors. Processor procurement pressure has added to buoyant market pricing. A lower NZD against the EUR and GBP over the past year has offered local price support. It all shows the 12% gain in average lamb prices last season was no fluke, with average prices this season likely to rise by more than that.

| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| Lamb leg (UK p/lb) | 211 | 209 | 216 | → |

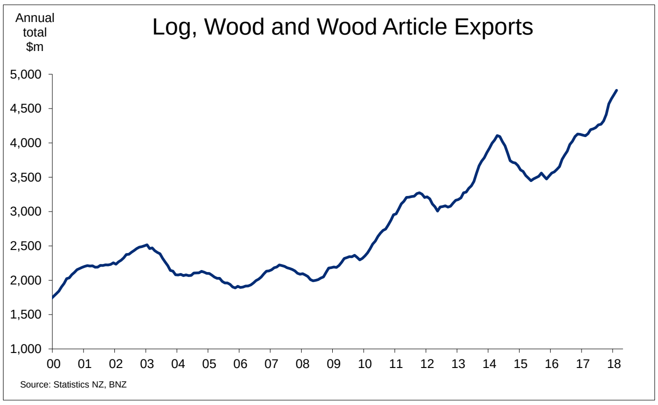
## Beef




US beef prices have been relatively stable, at firm levels, over recent months. Buoyant economic conditions have supported demand and prices. But US herd rebuilding and cheap feed grain is adding to supply bringing an expectation of somewhat lower prices ahead. Dry conditions in parts of the US present a downside risk as does US-China trade tensions. On the plus side, Japan's temporary 50% tariff on frozen NZ beef reverted back to its normal 38.5% on 1 April. NZ supply is lifting seasonally. While we expect prices to ease ahead, NZ pricing on average for the 2017/18 season will be similar to 2016/17's strong levels.

| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| Imported bull (US ¢/lb) | 222 | 224 | 234 | ↓ |

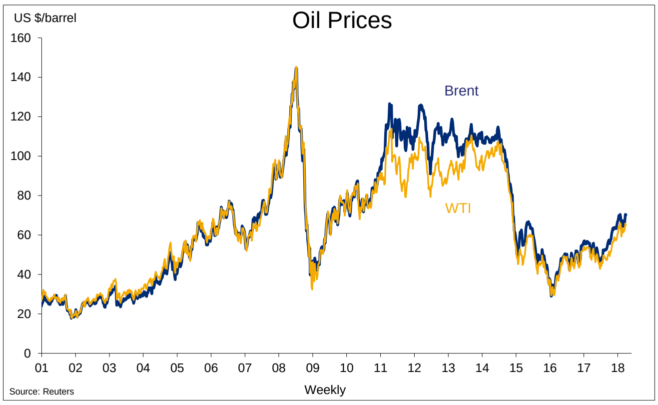
## Forestry




Exports of log, wood and wood articles continue to rise. The value in the year to February 2018 was up 19% on the same period a year earlier. The growth has been driven by both volume expansion and price appreciation. That is a function of strong demand – driven by China. Domestically, a flattening in building consents, albeit at a high level, has injected a hint of cautiousness into the market. Also, recent extreme weather – remember the cyclones – disrupted activity. Overall, the sector remains in good heart. The AgriHQ Log Price Index is at a record high and near 6% higher than a year ago.

| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| S1/S2 log price (NZ $/t) | 132 | 132 | 122 | ➔ |

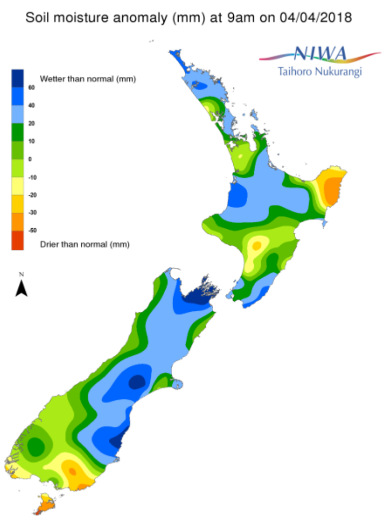
## Oil




Brent crude oil prices continue to trade in a broad $US60/bbl to $US70/bbl range, pressing towards the top end of that range over recent weeks. Prices have shrugged off early weakness associated with equity market volatility. Fundamentally, buoyant global economic growth has underpinned demand and there has been little news on OPEC's thinking on when to end production curbs. Oil prices are expected to continue trading in the upper half of their recent range. Closer to home, a proposed fuel tax increase of between 9c and 12c per litre, in addition to Auckland's 10c per litre regional fuel tax, will lift fuel costs independent of crude oil or currency movements.

| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| Brent Crude (US $/b) | 70 | 64 | 53 | ➔ |

## Weather




The weak La Nina conditions are fading. Climate models suggest neutral conditions are the most likely outcome over the remainder of autumn and into winter. So no La Nina or El Nino to fret about, near term at least. That said, NIWA forecast, with high confidence, temperatures to be above average for all regions for the time of year over the coming three months. This would extend a run of very warm weather – indeed it has been the warmest start to a calendar year on record with mean temperatures 1.75 degrees above normal for the January through March period. Rainfall totals are forecast to be above normal in the north and east of the North Island, near normal in the west of the South Island, and near or above normal for all other regions. Currently, soil moistures are generally above normal for the time of year. The outlook generally follows rainfall forecasts.

# Quarterly Forecasts

**Forecasts as at 5 April 2018**

## Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Mar-18 to Mar-19

| | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GDP (production s.a.)** | 0.4 | 0.7 | 0.9 | 0.6 | 0.6 | 0.6 | 0.8 | 1.1 | 0.9 | 0.6 |
| **Retail trade (real s.a.)** | 1.4 | 1.4 | 1.8 | 0.3 | 1.7 | 1.0 | 0.7 | 1.3 | 1.3 | 0.7 |
| **Current account (ytd, % GDP)** | -2.2 | -2.6 | -2.6 | -2.5 | -2.7 | -2.6 | -2.9 | -3.2 | -3.2 | -3.1 |
| **CPI (q/q)** | 0.4 | 1.0 | 0.0 | 0.5 | 0.1 | 0.3 | 0.3 | 0.6 | 0.3 | 0.6 |
| **Employment** | 0.9 | 1.0 | 0.0 | 2.2 | 0.5 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| **Unemployment rate %** | 5.3 | 4.9 | 4.8 | 4.6 | 4.5 | 4.4 | 4.4 | 4.3 | 4.2 | 4.4 |
| **Avg hourly earnings (ann %)** | 1.1 | 1.1 | 1.2 | 2.0 | 3.1 | 3.2 | 3.0 | 2.8 | 2.6 | 2.8 |
| **Trading partner GDP (ann %)** | 3.5 | 3.6 | 3.7 | 4.1 | 3.9 | 3.9 | 3.8 | 3.7 | 3.7 | 3.7 |
| **CPI (y/y)** | 1.3 | 2.2 | 1.7 | 1.9 | 1.6 | 0.9 | 1.2 | 1.3 | 1.5 | 1.8 |
| **GDP (production s.a., y/y))** | 3.5 | 3.0 | 2.8 | 2.7 | 2.9 | 2.8 | 2.6 | 3.1 | 3.4 | 3.4 |

## Interest Rates

| Historical data - qtr average<br>Forecast data - end quarter | | Cash | Government Stock: 90 Day Bank Bills | 5 Year | 10 Year | Swaps: 2 Year | 5 Year | 10 Year | US Rates: Libor 3 month | US 10 yr | Spread: NZ-US Ten year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2017** | **Mar** | 1.75 | 2.00 | 2.70 | 3.25 | 2.35 | 3.00 | 3.50 | 1.15 | 2.50 | 0.80 |
| | **Jun** | 1.75 | 1.95 | 2.45 | 2.95 | 2.25 | 2.80 | 3.25 | 1.25 | 2.20 | 0.75 |
| | **Sep** | 1.75 | 1.95 | 2.45 | 2.95 | 2.20 | 2.70 | 3.20 | 1.30 | 2.20 | 0.75 |
| | **Dec** | 1.75 | 1.90 | 2.35 | 2.90 | 2.20 | 2.65 | 3.15 | 1.60 | 2.40 | 0.40 |
| **2018** | **Mar** | 1.75 | 1.95 | 2.50 | 3.00 | 2.20 | 2.75 | 3.30 | 1.80 | 3.00 | 0.00 |
| Forecasts | | | | | | | | | | | |
| | **Jun** | 1.75 | 1.95 | 2.50 | 2.95 | 2.20 | 2.75 | 3.25 | 1.95 | 3.00 | -0.05 |
| | **Sep** | 1.75 | 1.95 | 2.70 | 3.20 | 2.35 | 2.95 | 3.50 | 2.20 | 3.25 | -0.05 |
| | **Dec** | 1.75 | 2.05 | 2.80 | 3.25 | 2.50 | 3.05 | 3.55 | 2.30 | 3.25 | 0.00 |
| **2019** | **Mar** | 2.00 | 2.30 | 2.95 | 3.35 | 2.75 | 3.20 | 3.65 | 2.45 | 3.25 | 0.10 |
| | **Jun** | 2.25 | 2.55 | 3.25 | 3.65 | 3.05 | 3.20 | 3.65 | 2.55 | 3.50 | 0.15 |
| | **Sep** | 2.50 | 2.80 | 3.45 | 3.80 | 3.30 | 3.20 | 3.65 | 2.55 | 3.50 | 0.30 |
| | **Dec** | 2.75 | 3.05 | 3.60 | 3.90 | 3.45 | 3.50 | 3.95 | 2.55 | 3.50 | 0.40 |
| **2020** | **Mar** | 3.00 | 3.20 | 3.70 | 3.95 | 3.65 | 3.50 | 3.95 | 2.55 | 3.50 | 0.45 |
| | **Jun** | 3.00 | 3.20 | 3.65 | 3.95 | 3.65 | 3.50 | 3.95 | 2.55 | 3.50 | 0.40 |

## Exchange Rates (End Period)

| | USD Forecasts: NZD/USD | AUD/USD | EUR/USD | GBP/USD | USD/JPY | NZD Forecasts: NZD/USD | NZD/AUD | NZD/EUR | NZD/GBP | NZD/JPY | TWI-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Current** | 0.73 | 0.77 | 1.23 | 1.41 | 107 | 0.73 | 0.95 | 0.59 | 0.52 | 78.1 | 75.3 |
| **Jun-18** | 0.72 | 0.78 | 1.28 | 1.43 | 104 | 0.72 | 0.92 | 0.56 | 0.50 | 74.9 | 73.1 |
| **Sep-18** | 0.71 | 0.77 | 1.30 | 1.45 | 103 | 0.71 | 0.92 | 0.55 | 0.49 | 73.1 | 71.9 |
| **Dec-18** | 0.70 | 0.75 | 1.30 | 1.46 | 102 | 0.70 | 0.93 | 0.54 | 0.48 | 71.4 | 71.2 |
| **Mar-19** | 0.70 | 0.75 | 1.28 | 1.46 | 101 | 0.70 | 0.93 | 0.55 | 0.48 | 70.7 | 71.3 |
| **Jun-19** | 0.71 | 0.76 | 1.27 | 1.45 | 100 | 0.71 | 0.93 | 0.56 | 0.49 | 71.0 | 72.2 |
| **Sep-19** | 0.71 | 0.76 | 1.28 | 1.45 | 100 | 0.71 | 0.94 | 0.56 | 0.49 | 71.0 | 72.4 |
| **Dec-19** | 0.70 | 0.75 | 1.30 | 1.46 | 99 | 0.70 | 0.93 | 0.54 | 0.48 | 69.3 | 71.3 |
| **Mar-20** | 0.70 | 0.75 | 1.32 | 1.47 | 99 | 0.70 | 0.93 | 0.53 | 0.48 | 69.3 | 71.3 |
| **Jun-20** | 0.69 | 0.74 | 1.34 | 1.48 | 98 | 0.69 | 0.93 | 0.52 | 0.47 | 67.6 | 70.4 |
| **Sep-20** | 0.69 | 0.74 | 1.36 | 1.47 | 98 | 0.69 | 0.93 | 0.51 | 0.47 | 67.6 | 70.4 |
| **TWI Weights** | | | | | | 14.0% | 20.7% | 10.3% | 4.8% | 6.8% | |

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

# Forecasts

| Forecasts as at 5 April 2018 | March Years | | | | | December Years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | | Forecasts | | | Actuals | | Forecasts | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| ***GDP -*** annual average % change | | | | | | | | | | |
| Private Consumption | 3.9 | 5.4 | 4.1 | 3.8 | 2.3 | 5.0 | 4.5 | 3.9 | 2.7 | 1.4 |
| Government Consumption | 2.5 | 2.0 | 4.9 | 2.9 | 2.2 | 1.7 | 4.7 | 3.3 | 2.5 | 1.9 |
| Total Investment | 4.7 | 5.6 | 3.9 | 4.1 | 3.9 | 6.4 | 3.3 | 4.5 | 4.0 | 3.6 |
| Stocks - ppts cont'n to growth | -0.3 | -0.1 | -0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| GNE | 3.5 | 4.8 | 3.5 | 3.4 | 2.7 | 4.7 | 4.0 | 3.2 | 3.0 | 2.1 |
| Exports | 5.6 | 0.7 | 4.2 | 2.2 | 4.3 | 1.6 | 2.5 | 2.4 | 4.2 | 4.5 |
| Imports | 2.1 | 5.1 | 6.2 | 3.6 | 3.6 | 3.4 | 6.6 | 3.7 | 3.9 | 3.0 |
| Real Expenditure GDP | 4.4 | 3.6 | 3.3 | 3.1 | 2.8 | 4.1 | 3.0 | 3.1 | 3.1 | 2.4 |
| **GDP (production)** | **3.6** | **3.7** | **2.8** | **3.2** | **2.8** | **4.0** | **2.9** | **3.0** | **3.0** | **2.4** |
| *GDP - annual % change (q/q)* | *4.0* | *3.0* | *2.8* | *3.4* | *2.5* | *3.5* | *2.9* | *3.4* | *2.6* | *2.3* |
| | | | | | | | | | | |
| Output Gap (ann avg, % dev) | 1.0 | 1.3 | 0.9 | 1.3 | 1.3 | 1.3 | 1.0 | 1.2 | 1.4 | 1.2 |
| Household Savings (% disp. income) | -1.3 | -2.8 | -2.3 | -3.2 | -2.9 | | | | | |
| Nominal Expenditure GDP - $bn | 254.7 | 270.3 | 287.5 | 300.3 | 314.1 | 266.0 | 283.5 | 297.0 | 310.6 | 324.9 |
| | | | | | | | | | | |
| ***Prices and Employment -*** annual % change | | | | | | | | | | |
| CPI | 0.4 | 2.2 | 0.9 | 1.8 | 2.0 | 1.3 | 1.6 | 1.5 | 2.1 | 2.0 |
| Employment | 2.0 | 5.7 | 3.3 | 2.0 | 1.6 | 5.8 | 3.7 | 2.1 | 1.8 | 1.2 |
| Unemployment Rate % | 5.2 | 4.9 | 4.4 | 4.4 | 4.4 | 5.3 | 4.5 | 4.2 | 4.4 | 4.6 |
| Wages - ahote | 2.5 | 1.1 | 3.2 | 2.8 | 2.7 | 1.1 | 3.1 | 2.6 | 2.8 | 2.4 |
| Productivity (ann av %) | 1.5 | -1.9 | -0.8 | 0.7 | 1.0 | -0.8 | -1.3 | 0.2 | 1.1 | 1.0 |
| Unit Labour Costs (ann av %) | 1.3 | 3.8 | 3.8 | 2.9 | 2.1 | 2.7 | 4.0 | 3.6 | 2.0 | 1.8 |
| | | | | | | | | | | |
| ***External Balance*** | | | | | | | | | | |
| Current Account - $bn | -7.0 | -7.2 | -7.6 | -9.4 | -7.6 | -6.0 | -7.7 | -9.7 | -8.1 | -7.9 |
| Current Account - % of GDP | -2.8 | -2.6 | -2.6 | -3.1 | -2.4 | -2.2 | -2.7 | -3.2 | -2.6 | -2.4 |
| | | | | | | | | | | |
| ***Government Accounts*** - June Yr, % of GDP | | | | | | | | | | |
| OBEGAL (core operating balance) | 0.7 | 1.5 | 1.0 | 0.9 | 1.6 | | | | | |
| Net Core Crown Debt (excl NZS Fund Assets) | 24.5 | 22.2 | 23.3 | 23.2 | 22.2 | | | | | |
| Bond Programme - $bn | 7.0 | 8.0 | 8.0 | 9.0 | 10.0 | | | | | |
| Bond Programme - % of GDP | 2.7 | 3.0 | 2.8 | 3.0 | 3.2 | | | | | |
| | | | | | | | | | | |
| ***Financial Variables*** (1) | | | | | | | | | | |
| NZD/USD | 0.67 | 0.70 | 0.73 | 0.70 | 0.70 | 0.70 | 0.70 | 0.70 | 0.70 | 0.68 |
| USD/JPY | 113 | 113 | 106 | 101 | 99 | 116 | 113 | 102 | 99 | 97 |
| EUR/USD | 1.11 | 1.07 | 1.23 | 1.28 | 1.32 | 1.05 | 1.18 | 1.30 | 1.30 | 1.38 |
| NZD/AUD | 0.90 | 0.92 | 0.94 | 0.93 | 0.93 | 0.96 | 0.91 | 0.93 | 0.93 | 0.93 |
| NZD/GBP | 0.47 | 0.57 | 0.52 | 0.48 | 0.48 | 0.56 | 0.52 | 0.48 | 0.48 | 0.46 |
| NZD/EUR | 0.61 | 0.66 | 0.59 | 0.55 | 0.53 | 0.67 | 0.59 | 0.54 | 0.54 | 0.49 |
| NZD/YEN | 76.2 | 79.1 | 77.0 | 70.7 | 69.3 | 81.6 | 78.7 | 71.4 | 69.3 | 66.0 |
| TWI | 72.2 | 76.5 | 74.8 | 71.3 | 71.3 | 78.1 | 73.6 | 71.2 | 71.3 | 69.5 |
| Overnight Cash Rate (end qtr) | 2.25 | 1.75 | 1.75 | 2.00 | 3.00 | 1.75 | 1.75 | 1.75 | 2.75 | 2.75 |
| 90-day Bank Bill Rate | 2.41 | 1.98 | 1.95 | 2.28 | 3.20 | 2.02 | 1.88 | 2.03 | 3.03 | 2.87 |
| 5-year Govt Bond | 2.40 | 2.70 | 2.50 | 2.95 | 3.70 | 2.75 | 2.30 | 2.80 | 3.60 | 3.60 |
| 10-year Govt Bond | 2.90 | 3.25 | 3.00 | 3.35 | 3.95 | 3.30 | 2.80 | 3.25 | 3.90 | 3.95 |
| 2-year Swap | 2.30 | 2.30 | 2.20 | 2.75 | 3.65 | 2.40 | 2.20 | 2.50 | 3.45 | 3.40 |
| 5-year Swap | 2.60 | 3.00 | 2.75 | 3.20 | 3.95 | 3.00 | 2.65 | 3.05 | 3.85 | 3.85 |
| US 10-year Bonds | 1.90 | 2.50 | 3.00 | 3.25 | 3.50 | 2.50 | 2.40 | 3.25 | 3.50 | 3.50 |
| NZ-US 10-year Spread | 1.00 | 0.75 | 0.00 | 0.10 | 0.45 | 0.80 | 0.40 | 0.00 | 0.40 | 0.45 |

(1) *Average for the last month in the quarter*

Source for all tables: Statistics NZ, EcoWin, Bloomberg, Reuters, RBNZ, NZ Treasury, BNZ

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